

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-011
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

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AUDIT REPORT NUMBER

#08-011

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Jody Belgard –Akimoto, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 East Lake Avenue
Watsonville, California 95076

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, Watsonville, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 14th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

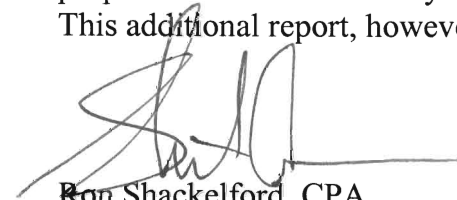
At year-end, an amount for employee receivables is currently being analyzed and has not been agreed upon. As such, we were unable to satisfy ourselves to the amount stated in the accompanying financial statements for Account #131, Accounts Receivable – Net, (stated as \$15,558) at December 31, 2007, and Account #245, Compensated Absences Liability, (stated at \$12,430) at December 31, 2007.

In our opinion, except for the effects on the 2007 financial statements of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 14th District Agricultural Association, Santa Cruz County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in net resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America



The 14th DAA, Santa Cruz County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-011, on the 14th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 14th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA
Chief, Audit Office

March 13, 2009

**14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash	111-117	123,555	\$ 83,851
Accounts Receivable, Net	131	15,558	2,235
Construction in Progress	190	1,500	-
Land	191	8,500	8,500
Buildings and Improvements, Net	192	2,097,410	2,194,312
Equipment, Net	193	113,876	16,944
TOTAL ASSETS		<u>\$ 2,360,399</u>	<u>\$ 2,305,842</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payables	212	256,826	139,235
Payroll & Other Liabilities	221-226	19,835	-
Deferred Income	228	(200)	15,916
Guaranteed Deposits	241	24,712	61,361
Compensated Absences Liability	245	12,430	12,430
Long Term Debt	250	62,446	-
JLA Consignment	252	50,000	-
Trust Liability	259	62,989	-
Total Liabilities		<u>489,038</u>	<u>228,943</u>
Net Resources			
Net Resources - Junior Livestock Auction	251	28,366	20,799
Net Resources - Operations	291	(378,292)	(163,656)
Net Resources - Capital Assets, less Related Debt	291.1	2,221,286	2,219,756
Total Net Resources Available		<u>1,871,360</u>	<u>2,076,899</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 2,360,399</u>	<u>\$ 2,305,842</u>

**14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
REVENUE			
State Apportionments	312	\$ 124,000	\$ 124,000
Capital Project Reimbursement Funds	317	68,000	63,385
Other	340	40,000	34,273
Admissions	410	345,686	300,482
Commercial Space	415	54,625	45,900
Carnival	421	71,000	71,199
Food Concessions	422	123,904	108,747
Exhibits	430	25,977	19,887
Horse Show	440	25,475	26,158
Miscellaneous Fair	470	100,289	96,811
JLA Revenue	476	21,599	2,229
Non-Fair Revenue	480	444,516	362,211
Prior Year Adjustment	490	1,081	31,598
Other Revenue	495	1,920	4,911
Total Revenue		<u>1,448,072</u>	<u>1,291,791</u>
EXPENSES			
Administration	500	411,198	255,488
Maintenance and Operations	520-530	663,216	615,284
Publicity	540	78,172	70,942
Attendance	560	97,957	108,691
Miscellaneous Fair	570	26,532	27,634
JLA Expense	576	14,033	3,937
Premiums	580	32,258	30,024
Exhibits	630	133,085	110,171
Horse Show	640	17,206	28,342
Fairtime Attractions, Interim Attractions	660	100,222	110,203
Equipment	723	3,488	6,697
Prior Year Adjustments	800	(54,019)	55,471
Cash Over/Short from Ticket Sales	850	-	144
Depreciation Expense	900	130,263	106,826
Capital Expenditure, Fair	910	-	21,500
Total Expenses		<u>1,653,611</u>	<u>1,551,354</u>
RESOURCES			
Net Change - Income / (Loss)		(205,539)	(259,562)
Resources Available, January 1		2,076,899	2,336,461
Resources Available, December 31		<u>\$ 1,871,360</u>	<u>\$ 2,076,899</u>

**14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	(205,539)	\$ (259,562)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(13,323)	3,974
Increase (Decrease) in Payroll & Other Liabilities	19,835	-
Increase (Decrease) in Accounts Payables	117,591	90,085
Increase (Decrease) in Deferred Income	(16,116)	6,157
Increase (Decrease) in Compensated Absence Liability	-	(1,884)
Increase (Decrease) in Guarantee Deposits	(36,649)	53,262
Total Adjustments	<u>71,338</u>	<u>151,595</u>
Net Cash Provided (Used) by Operating Activities	<u>(134,201)</u>	<u>(107,968)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(1,500)	98,904
(Increase) Decrease in Buildings & Improvements	96,902	(22,001)
(Increase) Decrease in Equipmen	<u>(96,932)</u>	<u>16,773</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,530)</u>	<u>93,675</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Debt	62,445	-
Increase (Decrease) in JLA Consignment	50,000	-
Increase (Decrease) in Trust Liability	<u>62,989</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>175,434</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	39,703	(14,293)
Cash at Beginning of Year	83,851	98,144
CASH AT END OF YEAR	<u><u>\$ 123,555</u></u>	<u><u>\$ 83,851</u></u>

**14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 14th District Agricultural Association (DAA) was formed on May 27, 1935, for the purpose of sponsoring, managing, and conducting the Santa Cruz County Fair each year in Watsonville, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 8.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 200	\$ 200
Cash in Bank - Operating	(27,509)	(23,110)
Cash in Bank - Premium	(3,921)	-
Cash in Bank - Payroll	89	-
Cash in Bank - Time Deposit	25,428	85,962
Cash in Bank - JLA	66,279	20,799
Cash in Bank - CD	<u>62,989</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 123,555</u>	<u>\$ 83,851</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$ 3,202	\$ 2,235
Accounts Receivable - JLA	<u>12,356</u>	<u>-</u>
Accounts Receivable - Net	<u>\$ 15,558</u>	<u>\$ 2,235</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$3,852,252	\$3,852,251
Less: Accumulated Depreciation	<u>(1,754,842)</u>	<u>(1,657,939)</u>
Building & Improvements - Net	<u>\$2,097,410</u>	<u>\$2,194,312</u>

Equipment	\$ 357,408	\$ 227,116
Less: Accumulated Depreciation	<u>(243,532)</u>	<u>(210,172)</u>
Equipment - Net	<u>\$ 113,876</u>	<u>\$ 16,944</u>

NOTE 5 **LONG-TERM DEBT**

1. The DAA has entered into a three long-term loan agreements with a local corporation to finance the two pieces of equipment for use on the fairgrounds. The Fair agreed to pay the loan with a fixed amount of interest over three to four years and no amortization schedule was included with the agreement. The terms of the agreements are as follows:

Tractor Loan:

Loan Amount	\$ 42,941
First Payment Date	October, 2007
Payment Amount	\$ 1,031
Duration of Loan	48 Months
Interest Rate	7.47%
Total Outstanding at 12/31/07	\$ 40,862

Utilities Loan:

Loan Amount	\$ 10,827
First Payment Date	October, 2007
Payment Amount	\$ 334
Duration of Loan	36 Months
Interest Rate	7.33%
Total Outstanding at 12/31/07	\$ 9,993

Due to financial burden, in 2008, the Fair surrendered these pieces of equipment back to the local corporation. Thus, we have determined to not reclassify the current portion due as of December 31, 2007.

2. In 2007, the Fair entered into long-term loan agreement with the Santa Cruz County Fair Heritage Foundation for financial assistance to help pay current outstanding payables. The Fair agreed to pay the loan over two to three years and no amortization schedule was included with the agreement. The terms of the agreement are as follows:

Santa Cruz County Fair Heritage Foundation:

Loan Amount	\$ 11,592
Duration of Loan	2 – 3 Years
Total Outstanding at 12/31/07	\$ 11,591

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **SUBSEQUENT EVENTS**

In January 2008, the 14th DAA experienced severe financial challenges that required it to obtain a line of credit of more than \$180,000 with a local bank. The Fair obtained the line of credit in January and used a significant portion to pay existing obligations. The Fair is working closely with F&E to develop a business plan that will alleviate/mitigate the financial challenges it is currently experiencing.

NOTE 8 **LITIGATION**

The 14th DAA is involved in various legal actions, arising in the normal conduct of its business, none of which, in the opinion of management, will

have a material effect on its financial position or results of operations within the next year.

NOTE 9 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 14th DAA Board of Directors
1	Chief Executive Officer, 14th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

MANAGEMENT REPORT #08-011

YEAR ENDED DECEMBER 31, 2007

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
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Stefanie Leckey

Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER
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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms Jody Belgard – Akimoto, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 East Lake Avenue
Watsonville, California 95076

In planning and performing our audit of the financial statements of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, Watsonville, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Santa Cruz County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 14th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 14th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 14th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 14th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 14th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 14th DAA and compliance with state laws and regulations, we identified ten areas with reportable conditions that are considered weaknesses in the Fair's operations: unrecorded internal revenue service liability, accounting for guaranteed deposits, accounts receivable, employee time records, unsupported expenditures, independent contractor/employee status determination, sponsorship policy and procedures, entertainment taxation withholding, delegated and opportunity purchasing, and unrestricted net resource accounts. We have provided 15 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 14th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

UNRECORDED INTERNAL REVENUE SERVICE LIABILITY

Based on our audit of accounts payable, our office noted the Fair did not record an accounts payable of \$61,826 for an outstanding liability owed to the Internal Revenue Service (IRS). This amount includes principal, penalties, and interest accrued from a liability that arose from the Fair incorrectly reporting federal taxes withheld as of tax period December 31, 2005. The Fair's accounting records do not reflect this liability as of year-end 2007. As a result, the Fair has an unrecorded liability of \$61,826 owed to the IRS at December 31, 2007.

Recommendation

- 1. The Fair should establish a liability of \$61,826 within its accounting records related to the principal, penalties, and interest owed to the IRS. In the future, all obligations of the Fair should be recorded in the general ledger within the accounting period they are incurred.*

ACCOUNTING FOR GUARANTEED DEPOSITS

The Fair could not determine whether the \$24,712 reported as a liability for Account #241, Guarantee Deposits, is fairly stated in the general ledger year-end and related accounting reports. The Fair did not maintain a detailed control log that listed the patrons from whom the Fair received deposits. Furthermore, there was no reconciliation prepared to determine the amount of security deposits held by the Fair to the balance reported in the general ledger at year-end.

Recommendation

- 2. The Fair should make it a priority to research and determine the correct balance for Account #241, Guarantee Deposits. The necessary correcting journal entries should be made to ensure the account is fairly stated.*

ACCOUNTS RECEIVABLE

As of December 31, 2007 the Fair has not established an accounts receivable for overpayments made to employees as identified in our prior audit report #07-011. During this time period, Employee A was improperly paid approximately \$20,000 for overtime that should not have been earned and/or paid. Employee B was improperly paid approximately \$4,000 for overtime. Since both employees are classified as exempt, they are not entitled to earn CTO. The Federal Labor Standards Act (FLSA) and Department of Personnel Administration (DPA) prohibit exempt employees from earning overtime.

Recommendation

3. *The Fair should ensure the overtime monies improperly paid to exempt employees are collected. An accounts receivable should be established for these amounts in the Fair's general ledger.*

EMPLOYEE TIME RECORDS

On a regular basis, employees of the Fair repeatedly did not successfully complete a timecard Absence and Additional Time Work Report, STD 634. The purpose of this control is to properly track leave credit used and earned. Based on our examination of leave balances, we noted that the Fair did not have timecards for some pay periods when leave was used and earned. In other cases when overtime was cashed out, there was no timecard available to verify authorization and hours worked.

As of December 31, 2007 the Fair has not updated the leave liability balance. In response, the Fair should put extensive efforts into resolving any discrepancies for leave balances used and earned. According to Statement No. 16 of the Governmental Accounting Standards Board (GASB), state and local governmental entities are required to report the full liability for compensated absences. Since leave liability represents a liability on the Fair's balance sheet, without an annual reconciliation and updates to the posting of activity, the Fair may materially misstate the net resource account and the overall operations.

In addition, the Fair allowed one employee to carry over Compensated Time Off (CTO) in excess of 240 hours. This employee had 365 hours of CTO at year-end. According to the employee's respective bargaining unit (unit 1 – Professional, Administrative, Financial, and Staff Services), the maximum number for CTO is 240 hours. As stated by the employee's bargaining unit, "Employees may accumulate up to 240 hours of CTO. All hours in excess of 240 CTO hours shall be compensated in cash."

Recommendations

4. *The Fair should comply with the Division of Fairs and Expositions Accounting Procedures Manual and require all permanent employees to maintain time cards that demonstrate time worked and vacation taken with the appropriate supervisor approval.*
5. *The Fair should review employees' leave balances at year-end to ensure Account #245, Compensated Absences Liability, reflects the accurate liability amount. This account should be adjusted annually prior to the closing of the accounting period and the preparation of the year-ending financial statements.*
6. *The Fair should encourage employees with excess balances to take time off and compensate employees in cash for excess CTO hours, thereby reducing their accumulated leave balances.*
7. *The Fair should research any errors in calculating leave balances and adjust the leave cards to reflect proper accrual of leave based on the employee's respective classification.*

UNSUPPORTED EXPENDITURES

Based on our examination of expenditures, our office noted that the Fair did not adequately support expenses incurred during the year with detailed invoices. During fieldwork, our office noted numerous instances where a cancelled check was present; however, there were no invoices attached to provide greater detail as to who, what, when, and why the expense was incurred. According to the Accounting Procedures Manual (APM) section 2.85 and sound accounting practices, all expenditures should be supported by detailed invoices and related documents.

Recommendation

8. *The Fair should comply with the APM section 2.85 and ensure that proper supporting documentation is on hand prior to making payment to any vendor. Furthermore, all invoices should be marked to note the proper approvals, amounts, and correct classification.*

INDEPENDENT CONTRACTOR/EMPLOYEE STATUS DETERMINATION

The Fair classified department heads as independent contractors. However, in response to Form SS8 filed by the Fair, as noted in our first finding, the IRS indicated that, "We hold the workers to have been employees of the firm (Fair)." The Fair should follow the recommendations of the IRS letter dated December 17, 2007 and refrain from misclassifying individuals that could result in fines and penalties pursuant to the Federal Labor Standards Act or applicable state laws. This was a prior year audit finding.

Recommendations

9. *The Fair should ensure they properly classify all individuals that work at the Fair as department heads. If the Fair has questions regarding their classification, then the Fair should contact the IRS to determine the proper classification.*

SPONSORSHIP POLICY & PROCEDURES

The Fair's Board of Directors had not established policies and procedures for entering into sponsorship agreements and securing of sponsorships, as required by the Division of Fairs & Expositions (F&E) Contracts Manual, Chapter 6 § 6.25. According to the F&E Contracts Manual, the process is: a) DAA Boards establish procedures for entering into sponsorship agreements, b) each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office, c) the DAA then follows the sponsorship procedures set by their Board, d) these procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contracts Manual requirements or F&E approval; however, they are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1 (b) does require F&E pre-approval of sponsorship contracts that exceed \$100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property.

Recommendation

10. The Fair Board of Directors should comply with the F&E Contracts Manual and establish policies and procedures for entering and securing sponsorship agreements.

ENTERTAINMENT TAXATION WITHHOLDING

The Fair did not complete and submit a list of prospective out-of-state entertainers, receiving \$1,500 or more, to the Franchise Tax Board (FTB), Withholding at Source Unit. The submission of this list will ensure proper taxation withholdings of entertainers/performing entities by the Fair when required by FTB. Beginning January 1, 2008, all withholding agents must withhold the standard 7% on California source payments to nonresidents.

Recommendation

11. The Fair should complete and submit a list of prospective entertainers who will receive \$1,500 or more to FTB, Withholding at Source Unit, to ensure proper taxation withholdings.

DELEGATED & OPPORTUNITY PURCHASING

The Fair's compliance with State of California purchasing procedures was reviewed and the following weaknesses were noted:

- a. The Fair does not have a current delegated purchasing authority from the Department of General Services (DGS). DGS requires DAAs throughout the State to renew delegated purchasing authority on an annual basis. Regardless of the type of purchase, the Purchasing Authority is granted for a twelve-month period. According to the DGS Purchasing Administrative Manual (PAM) § 1.17, departments without approved purchasing authority are prohibited from conducting purchasing activities, including non-information technology (IT) goods exceeding \$100, IT goods and services of any dollar value, and participation in CAL-Card Purchase Card Program. This is a prior year audit finding.
- b. The Fair did not comply with the APM when making opportunity purchases. Public Contract Code (PCC) § 10321 states that local businesses often provide opportunity purchases to local Fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program; however, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. Also, per APM §III, 2.2, the Fair must demonstrate that an opportunity purchase meets or is better than the State price. This is a prior year audit finding.
- c. The Fair did not prepare a Standard Form 65, Contract/Delegation Purchase Order, for the purchase of goods exceeding \$100. The Fair used internal purchase orders for all purchases. Internal purchase orders are allowed for purchases under \$100. In addition, under the Delegated Purchasing Authority, the Fairs are required to forward all purchase orders exceeding \$100 to DGS.

Recommendations

12. *The Fair should work with DGS in order to obtain a renewal of its Delegated Purchasing Authority. Furthermore, the Fair should submit a yearly "Request for Delegated Purchasing Authority" in a timely manner to ensure that their authority does not expire. Once a purchasing authority expires, the Fair is prohibited from making delegated purchases that exceed \$100.*
13. *The Fair should follow PCC and the guidelines in the APM for claiming Opportunity Purchases, which require obtaining bids and documenting that the price for the opportunity purchase meets or is better than the state price.*
14. *The Fair should comply with the purchase order requirements and complete a Purchase Order (Standard Form 65) for all purchases over \$100.*

UNRESTRICTED NET RESOURCE ACCOUNTS

As of December 31, 2007, the Fair maintained two unrestricted net resource accounts, Account #291, Net Resources – Operations, and Account #291.1, Net Resources – Capital Assets, within the general ledger. The F&E Depreciation Conversion Guide requires the Fair to consolidate the unrestricted resource accounts into one account. The purpose of this action is to (i) eliminate unnecessary resource accounts, (ii) avoid the closing of Fair revenue and expenses to different resource accounts, and (iii) eliminate the possibility of overstating revenue and expenses involving transfers between both resource accounts. This was a prior year audit finding.

Recommendation

15. *The Fair should comply with the F&E Depreciation Conversion Guide and consolidate the two unrestricted net resource accounts.*

NON-REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of standard agreements revealed that the Fair did not always prepare a standard agreement for businesses/individuals who received an IRS Form 1099-MISC, Miscellaneous Income, for services rendered. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of \$600 or more from the Fair during the year. According to the APM, fairs are required to enter into a contract for all services performed by independent contractors. This was a prior year audit finding.

In addition to the above, the Fair did not always prepare or issue an Internal Revenue Service (IRS) Miscellaneous Income Form 1099 to contractors receiving \$600 or more for services performed. The IRS requires this form to be prepared any time contractors earned over \$600 in a calendar year.

Moreover, the Fair did not complete form STD 204, Payee Data Record, for all business/individuals (except government agencies) receiving payment from the State of California (Fairs). This form is used in lieu of IRS Form W-9, and should be on file for taxpayer identification purposes. This was a prior year audit finding.

Secondly, the Fair was unaware of the required Employment Development Department (EDD) DE 542 form for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendations

The Fair should ensure that Standard Agreements are completed for all services provided to the Fair. The Fair should complete a Standard Agreement by formalizing the services to be provided and documenting (i) job duties and responsibilities, (ii) service period, and (iii) reporting relationship.

According to APM section 1.3, all independent contractors earning more than \$600 in a calendar year from the Fair must complete a Miscellaneous Income Form 1099.

The Fair should complete Form STD 204, for all individuals who provide service to the Fair. The completion of this form ensures the proper accounting for the tax identification of these individuals. The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

BOARD MINUTES

An analysis of the Fair's Board of Director's meeting minutes identified that the Board President did not sign and date board minutes indicating a formal certification of the actual activity discussed in a public forum at year end 2007. Having the Board President examine and approve the minutes helps improve controls and mitigates the possibility of any changes being made to minutes after the fact.

Recommendation

The Fair should ensure the Board President formally certifies the minutes of all Board of Director's meetings by signing and dating the related minutes after a review has taken place. This process serves dual purposes as it (i) helps to ensure the minutes accurately reflect the activities discussed during the public forum, and (ii) mitigates the possibility for changes to be made to the minutes.

SUPPORTING DOCUMENTATION FOR ADMISSION REVENUE

The Fair erroneously destroyed the ending ticket inventory or deadwood for admissions. As a result, we were unable to verify the ending ticket inventory according to the ticket summary report to the actual deadwood on hand. According to the APM, section 5.1, all records must be retained until an audit has been conducted; all of the retention periods are calculated from the date of last audit, unless otherwise specified. If there are any questions in regard to the destruction of a particular type of record, the Fair should contact the Audit Office for further assistance.

Recommendation

The Fair should ensure that all records, including ending ticket inventory, are properly maintained in accordance with the records retention policy as outlined in the Accounting Procedures Manual.

CARNIVAL REVENUE

The Fair exposed itself to loss by not obtaining the carnival recap sheet from the carnival contractor for the 2007 fair. Without the recap sheet, the Fair was unable to confirm whether they received the correct amount of revenue from the carnival contractor. The recap sheet provides fairtime information to determine whether the Fair should receive the minimum guarantee or the dollar amount per paid admission and food/game concessions.

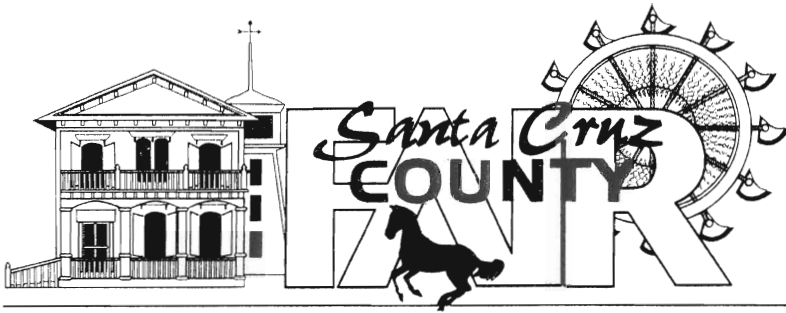
Furthermore, the Fair accepted the minimum guarantee totaling \$71,000, according to the carnival contract, without verifying the carnival's records. Upon further investigation, according to the Fair records, we noted that the Fair received a total amount of \$68,593; whereas the guarantee amount was \$71,000. As a result, the Fair under-collected carnival revenue by \$2,407.

Recommendations

The Fair should improve its accounting controls over its share of carnival revenue by obtaining and reviewing the carnival recap sheet at the conclusion of the fair to ensure they receive the correct amount of carnival revenue.

The Fair should research the under-collected amounts and establish an accounts receivable for any outstanding amounts due to the Fair according to the contract.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



May 28, 2009

Ron Shackelford, Chief, Audit Office
California Department of Food Agriculture
1220 North Street Room 344,
Sacramento, CA 95814

Dear Ron:

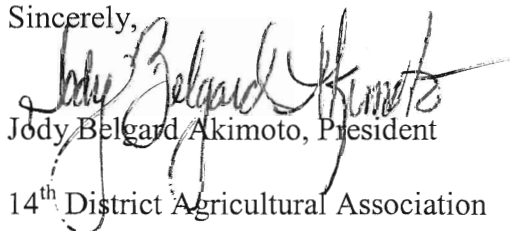
Thank you for the opportunity to respond to the 2007 audit. I am sorry it took us so long to respond to the audit as we were spending time trying to implement the changes needed and the time got away.

Your audit team was very helpful in explaining to us the changes that we need to make in the operation of the Fair and at the same time give us refresher course on the rules and regulations.

I am looking forward to the 2008 audit. I know we made mistakes at the beginning of 2008, but I want to feel that by the end of the year we were pretty well on board.

Enclosed, please find the responses to the infractions found by your audit team. If you have any questions, please feel free to call John Kegebein @ 831 724 5671.

Sincerely,


Jody Belgard Akimoto, President
14th District Agricultural Association


John Kegebein, Interim Manager
14th District Agricultural Association

2007 AUDIT RESPONSES:

UNRECORDED INTERNAL REVENUE SERVICE LIABILITY

All of the of the financial work for the Santa Cruz County Fair is being done by May at CFSA. As of today May 29 the IRS Liability is being shown as an accounts payable.

ACCOUNTING FOR GUARENTEED DEPOSITS

Prior to the 2007 audit John Scufield, Deputy Manager for the Fair met with May at CFSA to correct all of the infractions and got the accounting corrected. Account 241 is balanced and all of the guaranteed deposits have been returned to rental contractors.

ACCOUNTS RECEIVABLE

An A/R has been established for employee A. The response to this item regarding Employee B will be sent separately as the Board will be making a final recommendation soon.

EMPLOYEE TIME RECORDS

Prior the audit we were implementing time records for all of the permanent employees. The employees had never heard of keeping time cards until last fall. We have since implemented keeping time records and have gone back to 2006 to make sure all leave balances are accounted for. The records are updated monthly. The employee that carried over 365 hours December 21, 2007 used 131.25 hours in January 2008 when she had her son. The employee now is carrying CTG of 261.25 hours. This will be reduced to 240 hours or less by the end of 2009. It is the intent of the 14th DAA to eliminate CTO or if an employee has to work overtime that the time be taken within the month earned.

INDEPENDENT CONTRACTOR/ EMPLOYEE STATUS DETERMINATION

It has been determined that all Department Heads of the fair are employees and will get a W-4 in 2009. All Department heads will get a contract outlining duties and the amount of money they will be paid and a W-2 will be issued at end of year.

UNSUPPORTED EXPENDITURES

The use of form 65 had been implemented prior to end of year 2008. All invoices and documentation are attached to form 65 and account numbers are on each invoice.

SPONSORSHIP POLICY AND PROCEDURES

Procedures have been established and approved by the Board of Directors giving direction for staff to seek sponsorships.

ENTERTAINMENT TAXATION WITHHOLDING

This tax withholding was done in 2008 and 2009

DELEGATED & OPPORTUNITY PURCHASING

At the next Board of Directors meeting the Board of Directors will be approving the Delegated & Opportunity Purchasing procedures as outlined by the Department of General Services.

UNRESTRICTED NET RESOURCE ACCOUNT:

It is my understanding that this has been done. We have sent a copy of the Audit to May at CFSA to review this item and help us make the correction if it has not been done already.

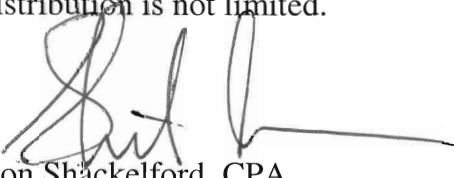
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 14th DAA, Santa Cruz County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between March 2, 2009 and March 13, 2009. My staff met with management on March 13, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

for Ron Shackelford, CPA
Chief, Audit Office

March 13, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 14th DAA Board of Directors
1	Chief Executive Officer, 14th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office